

PRESIDENT CLINTON AND VICE PRESIDENT GORE: A RESPONSIBLE BUDGET THAT PUTS FIRST THINGS FIRST

September 23, 1999

President Clinton and Vice President Gore Have Proposed a Fiscally Responsible Budget Plan that Eliminates the Debt, Strengthens Social Security and Medicare, and Maintains Key Priorities like Education. Under the President's proposal:

- ✓ The debt held by the public would be repaid by 2015, resulting in lower interest rates and higher incomes.
- ✓ Medicare solvency would be secured for at least a quarter century and Medicare would be reformed to make it more efficient and competitive, and its benefits modernized with a new prescription drug benefit.
- ✓ The Social Security surplus would be dedicated to paying down the debt and solvency would be extended.
- ✓ The budget framework would invest in key priorities like education, environment, public safety, and national security, while keeping overall spending at tight but realistic levels.
- ✓ A fair and responsible tax cut would provide tax relief for middle-class Americans while helping them save for retirement.

The President's Balanced and Responsible Budget Will Help Keep the Economy Strong, Building on the Progress That He Has Made in Bringing America's Fiscal House Back in Order. The debt held by the public is now \$1.7 trillion lower than it was projected to be when the President came into office. This achievement has kept interest rates down and confidence and investment up, contributing to the strongest American economy in generations.

- By comparison, debt quadrupled in the previous 12 years. Under the Reagan and Bush Administrations, the debt held by the public quadrupled, increasing from 26 percent of GDP in 1981 to 50 percent in 1993.
- The surplus this year is the largest on record. In 1992 the deficit was \$290 billion and projected to grow to more than \$400 billion this year. As a result of the decisive action the President took in 1993 and 1997, the budget surplus for this year is expected to be \$99 billion, or 1.1 percent of GDP. This would be the largest dollar surplus on record, and the largest relative to GDP since 1951.
- The largest pay-down of debt in history. The Treasury Department recently announced that we will pay down \$87 billion of debt held by the public this fiscal year. That is the largest pay-down of debt on record. In the last two years, we will have paid down \$142 billion of debt held by the public.
- Investment has boomed. The benefits of fiscal discipline for our economy have been enormous. Interest rates are lower than they would have been otherwise, helping to fuel a 12.4 percent annual increase in producers durable equipment investment since 1993—compared to 3.1 percent annual growth from 1981-92.
- Unemployment is the lowest in a generation. The unemployment rate has fallen to 4.2 percent – the lowest level in 29 years – and the Nation has created more than 19 million jobs since January 1993.

President Clinton Has a Plan to Pay Down the National Debt by 2015. The President has proposed that we move Social Security surpluses entirely off-budget, reserving them to pay down the national debt and use the interest savings from debt reduction to extend the solvency of Social Security. Paying down the debt would be highly beneficial:

- Interest payments would be eliminated. Under the President's budget, we can pay down the debt held by the public by 2015. As a result, interest payments, once projected to eat up 28 percent of all federal spending in 2015, would also be eliminated.
- Prepare for the retiring baby boomers. Paying off the debt will free up funds for investment, help keep interest rates low, and boost workers' productivity and incomes. This fiscal discipline is the best way to prepare the government, and the Nation, to meet the challenge of the retiring baby boomers.

Strengthening and Modernizing Medicare, While Paying Down the Debt to Prepare for Our Future Obligations. On June 29, the President introduced a plan to strengthen and modernize the Medicare program and prepare it for the health, demographic, and financing challenges it faces in the 21st Century.

- Making Medicare more efficient and competitive. The President's plan will save an estimated \$72 billion over 10 years by introducing greater competition between private health plans and traditional Medicare and adopting successful private sector tools for managing Medicare. It also invests \$7.5 billion to restore some of the provider payment reductions from the Balanced Budget Act of 1997.
- Securing Medicare solvency for a quarter century. As part of this comprehensive reform package, the President's plan dedicates \$328 billion of the non-Social Security surplus over 10 years to shore up Medicare's Hospital Insurance trust fund. These resources will be used to pay down additional debt held by the public and, together with the other reforms, this will extend solvency for at least a quarter century.
- Modernizing benefits. The President has proposed to modernize Medicare to provide an optional prescription drug benefit for all beneficiaries. About 75 percent of Medicare beneficiaries lack adequate, dependable, affordable private-sector coverage of prescription drugs.

President Clinton Has a Fiscally Responsible Plan to Extend the Solvency of Social Security.

- Keeping Social Security surpluses for Social Security. The President proposes to lock away all of the Social Security surplus, a step that would pay down debt and prepare the government, and the Nation, for the retirement of the baby boomers.
- Social Security solvency and debt reduction transfers. After a decade of debt reduction, the President's plan dedicates the interest savings resulting from this debt reduction to the Social Security Trust Fund. These fiscally prudent steps will pay down the government debt, reduce interest payments in the future, and provide resources to extend the solvency of Social Security by a half century.
- Working together to extend solvency for 75 years. In addition to using the savings from debt reduction for Social Security, the President has called for a bipartisan effort to make the reforms necessary to extend solvency to 2075 while dealing with poverty of older women and eliminating the retirement earnings test.

Maintaining Our Domestic Priorities, Including National Defense, Education, Law Enforcement, Public Health, the Environment, and Veterans Programs.

- Funding for priorities. As part of a balanced and responsible framework with Social Security and Medicare reform, the President's budget allocates an additional \$328 billion over the next ten years for discretionary spending beyond the levels provided in the 1997 Balanced Budget Act.
- Spending is kept below inflation. These spending plans are tight but realistic, *keeping overall discretionary spending growth slightly below inflation*, and domestic discretionary spending in 2009 roughly 10 percent below its current level adjusted for inflation.

The President Is Committed to Fair and Substantial Tax Cuts for Middle-Income Americans.

- The President proposes \$250 billion of tax cuts targeted to the middle class. The President has proposed Universal Savings Accounts (USAs) which would provide a tax credit to help middle-income families save for retirement. The President's budget provides targeted tax relief to help families meet child care needs and provide long-term care for ill relatives, to help communities build modern schools, and to encourage investment in areas of our country which have not fully participated in our expansion.

WHY THE PRESIDENT WILL VETO THE REPUBLICAN TAX BILL

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The President Has Said That He Will Veto the Republican Tax Cut Because:

- It would likely drain hundreds of billions of dollars from the Social Security surplus, money that should have been used for debt reduction.
- It puts at risk our fiscal discipline and the continuing economic expansion.
- It would explode in cost, threatening our fiscal discipline and leaving America permanently in debt.
- It would leave no money to extend Medicare solvency or provide for prescription drugs.
- It would lead to an untenable reduction in domestic spending, with potentially huge cuts in education, law enforcement, public health, the environment, and veterans programs.
- It would be unfair to working Americans.

PROTECTING SOCIAL SECURITY SURPLUSES AND FISCAL DISCIPLINE

The Republican Tax Bill Would Likely Drain Hundreds of Billions of Dollars From the Social Security Surplus, Diverting Money From Debt Reduction While Not Extending The Solvency of Social Security By a Single Day.

- Uses the entire non-Social Security surplus. The Republican tax cut, without sunsets, would cost more than \$850 billion over 10 years; with interest added it would use up the entire \$996 billion non-Social Security surplus projected by the Congressional Budget Office.
- Uses Social Security surpluses after 2004. The Republican tax cut uses more than the entire on-budget surplus after 2004, forcing the Republicans to choose between using Social Security revenues to pay for their tax cut or making even larger cuts in education and other parts of core government.
- Predictable consequence of the tax and budget plan is to drain hundreds of billions of dollars from the Social Security surplus. The Republican budget resolution plans to cut defense and domestic discretionary spending by nearly \$700 billion relative to the President's plan. Spending cuts of this magnitude would require a nearly 50 percent cut in non-defense discretionary spending in 2009. If these untenable cuts were not made, the consequence of the tax and budget plan would be to divert hundreds of billions of dollars of the Social Security surplus from promised debt reduction.
- The Republican plan would not extend Social Security solvency. The Republican plan does not extend solvency past 2034. Worse still, by diverting money from debt reduction it will make it even more difficult for the Nation to meet our obligations to future retirees.

The Republican Tax Cut, Assuming It Was Continued, Would Explode After 10 Years, Just When Social Security Begins To Come Under Strain and Medicare Approaches its Projected Insolvency (2015). The tax cut, together with funding for essential national defense, would leave America permanently in debt.

- Sunsets hide potential cost. To keep to a \$792 billion tax cut, the Republicans sunset many of the major provisions after 2008; the result is that taxes *increase* by more than \$60 billion in 2009 relative to their 2008 level. Reversing this implausible provision would bring the total cost to more than \$850 billion.
- Cost would explode to \$2.7 trillion in second decade. Projections by the Department of the Treasury indicate that the tax cut would cost \$2.7 trillion between 2010 and 2019. The extra debt service associated with the tax would be another \$1.4 trillion – bringing the total cost of the tax cut over the second 10 years to about \$4 trillion.
- Cost, with interest, is \$5 trillion over 20 years. If continued, the tax cut and the associated interest would cost \$5 trillion over 20 years.
- Does not pay down the debt. The President's plan invests in key priorities and pays off the debt by 2015. If the Republican tax cut were continued, and defense was funded at the levels requested by the President, the debt would never be repaid.

The Republican Tax Bill Would Threaten Our Fiscal Discipline and Risk Our Economic Expansion.

- Paying down the debt is best for the economy. Leading experts, from Federal Reserve Chairman Alan Greenspan to Wall Street's Henry Kaufman, have recognized that paying down the debt, not large tax cuts or spending increases, would be best for our economy.
- President's plan would pay down more debt. The predictable consequence of the Republican tax and budget plan, because it ignores Medicare and requires 50 percent cuts in domestic spending, would be to contribute less to debt reduction than would the President's plan, resulting in less investment in the technologies and equipment that make America's workers the most productive – and the highest paid – in the world.
- Republican plan threatens our fiscal discipline. The commitment to a large and exploding tax cut *based merely on projected surpluses* threatens our commitment to fiscal discipline and risks raising interest rates.

NOTHING FOR MEDICARE

The Republican Plan Leaves Nothing for Medicare, Which Is Projected To Become Insolvent In 2015.

- Tax cut uses all non-Social Security surpluses. The Republican tax cut spends the entire non-Social Security surplus, leaving nothing for Medicare solvency.
- Substantial solvency for Medicare will require additional resources. Medicare experts agree that additional resources are needed to extend Medicare solvency substantially without risky cuts or higher payroll taxes.
- No surplus to modify 1997 reforms. Many Republican Members of Congress have supported increasing Medicare spending by repealing some Balanced Budget Act of 1997 provisions. If none of the surplus is saved for Medicare, even larger cuts in hospitals and nursing homes would be required to extend solvency.

LARGE CUTS IN MEDICARE AND CORE GOVERNMENT

As Written, GOP Tax Bill Would Also Trigger Automatic Across-The-Board Cuts That Would Cut Medicare & Entirely Eliminate Key Programs.

- Triggers mandatory cuts. The Republican tax cut, as written, would trigger across-the-board spending cuts in mandatory programs (known as sequestration) under the Budget Enforcement Act's pay-as-you-go rules.
- Cuts Medicare. These cuts would eliminate \$41.4 billion from Medicare over the next 5 years (2000-2004), according to an Office of Management and Budget analysis.
- Eliminates key programs. These cuts would automatically eliminate several key programs, including farm safety net programs (cut by \$19.2 billion), veterans education and training (cut by \$2.0 billion), child support enforcement (cut by \$10.3 billion), and Social Service Block Grants that pay for child protection, child care, and the needs of the elderly and disabled (\$4.4 billion).
- Even these cuts would not pay for the tax cut. Even the reduction or elimination of these programs would offset only a small fraction of the Republican tax cut; the remainder would force choices between large and untenable cuts in core government or diverting Social Security funds from promised debt reduction.

The Republican Tax Cut Is Based On Untenable Reductions in Domestic Priorities, Including Education, Law Enforcement, Public Health, the Environment, and Veterans Programs.

- President's spending is tight but realistic. The President's budget devotes \$328 billion to discretionary spending, which still keeps spending slightly below its current level adjusted for inflation. Domestic discretionary spending will be kept roughly 10 percent below its current level adjusted for inflation by 2009.
- 50 percent cuts under Republican plan. The Republican tax and budget plan, if they match the President's defense request, would lead to a nearly 50 percent cut in all domestic discretionary spending in 2009. This could require massive cuts in everything from education, to the environment, to public safety.
- Predictable consequence is less debt reduction. If these highly damaging cuts are not made, the Republican tax and budget plan would divert hundreds of billions of dollars from promised debt reduction.

UNFAIR TO WORKING AMERICANS

The Large Republican Plan Delivers Only a Fraction of Its Benefits to the Middle Class; Even These Benefits Could Be More than Wiped Out by the Higher Interest Rates That Could Result from this Fiscally Irresponsible Policy.

- Little tax relief for the middle class. Under the Republican tax plan, 24 percent of the tax cuts go to the top 1 percent of families, those earning over \$347,000 per year. At the same time, less than 22 percent of the benefits go to the roughly 90 million families – 80 percent of all families – earning less than \$82,000 per year.
- Higher mortgage payments could reverse tax break. Under the Republican plan, middle-income families will see an average tax reduction of about \$350. *If mortgage rates rose even ½ percentage point, this tax break would be fully offset by higher mortgage payments* for a typical middle-income family with a \$100,000 mortgage.
- Estate tax elimination provides large benefits to a few, just years before Medicare is projected to become insolvent. Eliminating all estate tax revenues for 2009 would cost almost \$36 billion, which would provide an average benefit of over \$700,000 to the roughly 50,000 estates – less than 2 percent of all deaths – subject to taxes. At the same time, if no steps are taken, the Medicare trust fund will start to be depleted and will become insolvent in 2015.

THE PREDICTABLE CONSEQUENCE OF THE REPUBLICAN TAX CUT WOULD BE TO DIVERT HUNDREDS OF BILLIONS OF DOLLARS FROM THE SOCIAL SECURITY LOCKBOX AND DEBT REDUCTION

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The Republican Tax Cut, With Interest, Would Break the Social Security “Lockbox” After 2004 as shown in the table below.

	2005	2006	2007	2008	2009
Non-Social Security Surplus (CBO)	92	129	146	157	178
Republican Tax Cut*	85	117	140	168	188
Additional Interest From Tax Cut	11	16	24	33	44
Social Security Surplus Diverted From Debt Reduction	-4	-4	-18	-44	-54

*Assumes that the full tax cut is continued after 2008.

To Avoid Using Social Security Surpluses, the Republican Tax and Budget Plan Is Forced To Cut All Domestic Discretionary Spending by Nearly Half in 2009 (assuming that defense is funded at the President’s level). This could require cuts of nearly 50 percent in everything from air traffic safety to education to healthcare to veterans programs.

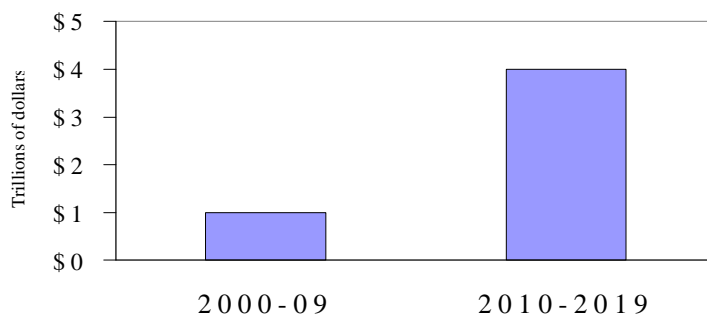
- The Republican budget resolution sets aside \$606 billion for all discretionary spending in 2009. If the Republicans fund defense at the levels requested by the President (\$384 billion in 2009), they would be able to devote only \$222 billion to all domestic spending, including education, healthcare, and veterans programs, in 2009. This is substantially below the roughly \$304 billion spent on non-defense discretionary spending in 1999. This represents a nearly 50 percent cut relative to 1999 levels adjusted for inflation.

If These Unfeasible and Undesirable Cuts Are Not Made, then the Republican Tax Cut Would Spend Hundreds of Billions of Dollars from the Social Security Surplus. Under highly conservative assumptions, even with large discretionary spending cuts, the fully phased in Republican tax cut would divert Social Security surpluses from debt reduction, leaving the debt hundreds of billions of dollars higher than the President’s plan.

The Republican Tax Cut, If Continued, Would Leave America Permanently In Debt. It is unrealistic to assume that the Republican tax cut will be reversed. If the tax cuts were continued:

- The cost of the tax bill would explode just when the baby boomers begin to retire, Medicare becomes insolvent (2015), and Social Security payroll revenues begin to fall short of benefits.
- The cost between 2010 and 2019 would be \$2.7 trillion, according to projections by the Treasury Department. The total cost, including lost interest savings, would be over \$4 trillion.
- The total cost over the 20 years between 2000 and 2019, including interest, would be about \$5 trillion.
- The debt held by the public would not be eliminated (assuming defense is funded at the level requested by the President).

The Exploding Republican Tax Cut



Note: Cost with interest, assuming tax cut is continued.